

THE TEN-POINT PLAN: TWENTY YEARS LATER

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THE ICC'S 1984 10-POINT PLAN WAS A POLEMIC THAT BECAME A ROADMAP

- The 10-point plan was intended to spur debate but then became a mantra.
- The 10-points were incremental steps for a transition, not an end-state vision.
- Taken as a whole, the 10-points can be found manifested in today's markets.
- Key conditions that spurred development of the plan have been largely cured.

10-POINT PLAN MUST BE SEEN IN CONTEXT OF THE TIMES

- Early and mid-1980s industry & regulatory conditions unmasked the underlying frailties of the traditional regime.
- Death Spiral: Capacity was in surplus but regulated prices rose and demand fell.
- The “social compact” proved fragile when things went wrong.
- Deregulation in network industries started as a movement in the late 1970s.

THE 10-POINTS: A STROLL DOWN MEMORY LANE

Incentive rates

Central Dispatch

Power Brokerage
& Auction Markets

Re-alignment of FERC
and State Authority

Interstate Compacts

Wheeling of Power

Unbundling of Rates

Diversity & Devolution of
Supply

Contracting & Off-System
Sales

Spot & Futures Markets

BIG LESSONS FROM THE 10-POINT PLAN EXPERIENCE

- No plan survives its first contact with the enemy & resistance sharpened the plan.
- The economic features of the plan were much more on the mark than were the political and regulatory elements.
- Regional differences have been tenacious.
- There should have been an 11th point about human frailty and dishonesty.

DEVOLUTION, WHEELING AND CUSTOMER CONTRACTING

- Interestingly, the most dramatic features of the plan have gone the farthest and today characterize the competitive transition.
- Most new generation and a large portion of utility generation are non-utility assets.
- RTOs, not thought of 20 years ago, are institutionalizing regional wires access.
- Customer appetite for competition is far greater than could have been expected.

WHAT THE 10-POINT PLAN EXPERIENCE SUGGESTS FOR THE POST-TRANSITION PERIOD

- The general direction of change toward competition has enormous momentum and is highly unlikely to revert to the old way.
- Advocacy by the regulator is a major influence on key outcomes.
- It is better not to rigidly define an end state in order to allow the market to innovate.
- Embrace resistance as a sharpening tool.

SON OF 10-POINT PLAN: 5 REALITIES OF THE POST- TRANSITION TRANSITION

1) Multi-Year Delivery Rates:

Cost of service regulation is being downsized to about one-third the capital base prior to the transition and distribution investment and operating costs should be simpler to forecast and manage for purposes of multi-year test period in rate filings. Such an approach also provides for synchronization between the delivery cost component for bundled and POLR service and for choice customers.

SON OF 10-POINT PLAN: 5 STEPS FOR THE POST- TRANSITION TRANSITION

2) Market Priced Energy for all End-Users

In light of the “devolution” of most utility generation in Illinois, all customers will pay market prices for energy. This allows for multi-year certainty for utility provided energy service to residential and small commercial customers and largely remedies the potential for large cross-class subsidies.

SON OF 10-POINT PLAN: 5 STEPS FOR THE POST- TRANSITION TRANSITION

3) The ICC will be the traffic cop

In the post-Transition era the ICC will have largely evolved into a body setting rules for competition and for monitoring the market. This will be true for all of the network industries that just two decades ago were regulated, cost of service, largely vertically integrated, monopoly enterprises.

SON OF 10-POINT PLAN: 5 STEPS FOR THE POST- TRANSITION TRANSITION

4) Hedging & Risk Allocation Paramount

The “functionalization” of the industry has dramatically changed risk bearing and capital costs for differing firms in the electricity value chain. The ICC will be called upon to isolate the wires company from commodity price and supply risk while providing for price certainty for residential and small commercial users.

SON OF 10-POINT PLAN: 5 STEPS FOR THE POST- TRANSITION TRANSITION

5) Demand Response as Swing Supply

The confluence of market pricing, end of stranded costs, RTO open access and real time price information will elicit substantial demand response (curtailment & load shifting) from customers that can economically substitute for new capacity, delivery investment and costly fuel at the margin.